

**REPORT OF THE AUDIT OF THE
HARRISON COUNTY
FISCAL COURT**

**For The Fiscal Year Ended
June 30, 2011**



**ADAM H. EDELEN
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EXECUTIVE SUMMARY
AUDIT EXAMINATION OF THE
HARRISON COUNTY FISCAL COURT

June 30, 2011

The Auditor of Public Accounts has completed the audit of the Harrison County Fiscal Court for fiscal year ended June 30, 2011. We have issued unqualified opinions, based on our audit, on the governmental activities and each major fund of Harrison County, Kentucky.

Financial Condition:

The fiscal court had total net assets of \$13,396,257 as of June 30, 2011. The fiscal court had unrestricted net assets of \$1,502,267 in its governmental activities as of June 30, 2011. The fiscal court had total debt principal as of June 30, 2011 of \$ 4,560,063 with \$436,452 due within the next year.

Deposits:

Fiscal court deposits were exposed to custodial credit risk because the bank did not adequately collateralize fiscal court's deposits in accordance with the security agreement as follows:

- Uncollateralized and Uninsured as of August 31, 2010 - \$98,188

<u>CONTENTS</u>	PAGE
INDEPENDENT AUDITOR’S REPORT	1
HARRISON COUNTY OFFICIALS	3
STATEMENT OF NET ASSETS - MODIFIED CASH BASIS	7
STATEMENT OF ACTIVITIES - MODIFIED CASH BASIS	11
BALANCE SHEET - GOVERNMENTAL FUNDS - MODIFIED CASH BASIS	14
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES - GOVERNMENTAL FUNDS - MODIFIED CASH BASIS.....	18
RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES - MODIFIED CASH BASIS.....	23
NOTES TO FINANCIAL STATEMENTS	25
BUDGETARY COMPARISON SCHEDULES.....	41
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION	46
REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS	49



ADAM H. EDELEN
AUDITOR OF PUBLIC ACCOUNTS

To the People of Kentucky
Honorable Steven L. Beshear, Governor
Lori H. Flanery, Secretary
Finance and Administration Cabinet
Honorable Alex Barnett, Harrison County Judge/Executive
Members of the Harrison County Fiscal Court

Independent Auditor's Report

We have audited the accompanying financial statements of the governmental activities and each major fund of Harrison County, Kentucky, as of and for the year ended June 30, 2011, which collectively comprise the County's basic financial statements, as listed in the table of contents. These financial statements are the responsibility of the Harrison County Fiscal Court. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America, the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States, and the Audit Guide for Fiscal Court Audits issued by the Auditor of Public Accounts, Commonwealth of Kentucky. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

As described in Note 1, Harrison County, Kentucky, prepares its financial statements in accordance with the modified cash basis, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America.

In our opinion the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities and each major fund of Harrison County, Kentucky, as of June 30, 2011, and the respective changes in financial position thereof for the year then ended in conformity with the basis of accounting described in Note 1.

The county has implemented Governmental Accounting Standards Board Statement 54 as it relates to the modified cash basis of accounting as described in Note 1, which has altered the format and content of the basic financial statements.

The county has not presented the management's discussion and analysis that the Governmental Accounting Standards Board (GASB) has determined is necessary to supplement, although not required to be part of, the basic financial statements. The budgetary comparison information is not a required part of the basic financial statements but is supplementary information required by GASB. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the budgetary comparison information. However, we did not audit it and express no opinion on it.



To the People of Kentucky
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In accordance with Government Auditing Standards, we have also issued our report dated April 16, 2012 on our consideration of Harrison County, Kentucky's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of our audit.

Respectfully submitted,

A handwritten signature in black ink, appearing to read 'Adam H. Edelen', with a stylized flourish at the end.

Adam H. Edelen
Auditor of Public Accounts

April 16, 2012

HARRISON COUNTY OFFICIALS

For The Year Ended June 30, 2011

Fiscal Court Members:

Alexander Barnett	County Judge/Executive
Frank Henson	Magistrate
Paula Taylor	Magistrate
Brad Marshall	Magistrate
Missy Lutz	Magistrate
Jeff Brunker	Magistrate
William Fritz	Magistrate
Larry Wells	Magistrate
Bradley Copes	Magistrate

Other Elected Officials:

Bradley Vaughn	County Attorney
Willard L. Turner	Jailer
Linda Furnish	County Clerk
Kathy Kearns	Circuit Court Clerk
Bruce Hampton	Sheriff
Carla Harney	Property Valuation Administrator
Tom Ware	Coroner

Appointed Personnel:

Candida Lewis	County Treasurer
Judy A. Smith	Finance Officer
Melody McClure	Occupational Tax Collector

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HARRISON COUNTY
STATEMENT OF NET ASSETS - MODIFIED CASH BASIS

June 30, 2011

HARRISON COUNTY
STATEMENT OF NET ASSETS - MODIFIED CASH BASIS

June 30, 2011

	<u>Primary Government</u>
	<u>Governmental</u>
	<u>Activities</u>
ASSETS	
Current Assets:	
Cash and Cash Equivalents	\$ 1,530,135
Notes Receivable	18,719
Assets Held for Resale	233,200
Total Current Assets	<u>1,782,054</u>
Noncurrent Assets:	
Notes Receivable	23,144
Bond Issuance Costs, Net	71,982
Discount on Bonds, Net	38,076
Capital Assets - Net of Accumulated Depreciation	
Land	488,500
Construction In Progress	70,507
Buildings and Improvements	5,772,424
Land Improvements	126,001
Other Equipment	466,913
Vehicles and Equipment	591,106
Infrastructure	8,525,613
Total Noncurrent Assets	<u>16,174,266</u>
Total Assets	<u>17,956,320</u>
LIABILITIES	
Current Liabilities:	
Bonds Payable	340,000
Financing Obligations Payable	96,452
Total Current Liabilities	<u>436,452</u>
Noncurrent Liabilities:	
Bonds Payable	3,945,000
Financing Obligations Payable	178,611
Total Noncurrent Liabilities	<u>4,123,611</u>
Total Liabilities	<u>4,560,063</u>
NET ASSETS	
Invested in Capital Assets,	
Net of Related Debt	11,866,122
Restricted For:	
Debt Service	27,868
Unrestricted	1,502,267
Total Net Assets	<u><u>\$ 13,396,257</u></u>

The accompanying notes are an integral part of the financial statements.

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HARRISON COUNTY
STATEMENT OF ACTIVITIES - MODIFIED CASH BASIS
For The Year Ended June 30, 2011

HARRISON COUNTY
STATEMENT OF ACTIVITIES - MODIFIED CASH BASIS

For The Year Ended June 30, 2011

Functions/Programs Reporting Entity	Expenses	Program Revenues Received		Net (Expenses) Revenues and Changes in Net Assets
		Charges for Services	Operating Grants and Contributions	Primary Government
Primary Government:				
Governmental Activities:				
General Government	\$ 2,023,406	\$ 11,411	\$ 898,150	\$ (1,113,845)
Protection to Persons and Property	1,446,827	1,610	87,096	(1,358,121)
General Health and Sanitation	308,840	24,820		(284,020)
Social Services	99,538			(99,538)
Recreation and Culture	118,432			(118,432)
Roads	1,883,509		1,352,364	(531,145)
Airports	10,000			(10,000)
Bus Services	11,988			(11,988)
Other Transportation Facilities and Services	3,000			(3,000)
Interest on Long-Term Debt	236,826			(236,826)
Capital Projects	139,104			(139,104)
Total Governmental Activities	\$ 6,281,470	\$ 37,841	\$ 2,337,610	(3,906,019)
General Revenues:				
Taxes:				
				713,288
				61,167
				142,869
				2,387,801
				367,563
				170,043
				34,611
				374,596
				26,659
				229,386
				4,507,983
				601,964
				12,794,293
				\$ 13,396,257

The accompanying notes are an integral part of the financial statements.

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HARRISON COUNTY
BALANCE SHEET - GOVERNMENTAL FUNDS - MODIFIED CASH BASIS

June 30, 2011

HARRISON COUNTY
BALANCE SHEET - GOVERNMENTAL FUNDS - MODIFIED CASH BASIS

June 30, 2011

	General Fund	Road Fund	Federal Grants Fund	E-911 Fund	Shropshire Fund
ASSETS					
Cash and Cash Equivalents	\$ 1,201,154	\$ 20,696	\$ 22,193	\$ 25,871	\$ 232,353
Total Assets	<u>1,201,154</u>	<u>20,696</u>	<u>22,193</u>	<u>25,871</u>	<u>232,353</u>
FUND BALANCES					
Restricted For:					
Debt Service					
Assigned To:					
General Health and Sanitation					232,353
Protection to Persons and Property				25,871	
Roads		20,696			
Unassigned	<u>1,201,154</u>	<u>20,696</u>	<u>22,193</u>	<u>25,871</u>	<u>232,353</u>
Total Fund Balances	<u>\$ 1,201,154</u>	<u>\$ 20,696</u>	<u>\$ 22,193</u>	<u>\$ 25,871</u>	<u>\$ 232,353</u>

The accompanying notes are an integral part of the financial statements.

HARRISON COUNTY
BALANCE SHEET - GOVERNMENTAL FUNDS - MODIFIED CASH BASIS
June 30, 2011
(Continued)

Public Properties Corporation Fund	Total Governmental Funds
<u>\$ 27,868</u>	<u>\$ 1,530,135</u>
<u>27,868</u>	<u>1,530,135</u>
27,868	27,868
	232,353
	25,871
	20,696
	<u>1,223,347</u>
<u>\$ 27,868</u>	<u>\$ 1,530,135</u>

Reconciliation of the Balance Sheet - Governmental Funds to the Statement of Net Assets:

Total Fund Balances	\$ 1,530,135
Amounts Reported For Governmental Activities In The Statement Of Net Assets Are Different Because:	
Notes Receivable - Amount Due from Sub-lessee, However Paid Directly to Lessor by Sub-lessee, Therefore Not Available as Funds to the County and Not an Asset in the Governmental Funds.	41,863
Capital Assets Used in Governmental Activities Are Not Financial Resources And Therefore Are Not Reported in the Funds.	30,299,912
Accumulated Depreciation	(14,258,848)
Assets Purchased and Held for Resale	233,200
Long-term Debt is not Due and Payable in the Current Period and, Therefore, is not Reported in the Funds.	
Financing Obligations	(275,063)
Bonds	(4,285,000)
Cost of Issuance, Bonds, Amortized over Life of Issuance	71,982
Discount on Bonds, Amortized over Life of Issuance	<u>38,076</u>
Net Assets Of Governmental Activities	<u>\$ 13,396,257</u>

The accompanying notes are an integral part of the financial statements.

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HARRISON COUNTY
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES
IN FUND BALANCES - GOVERNMENTAL FUNDS - MODIFIED CASH BASIS

For The Year Ended June 30, 2011

HARRISON COUNTY
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES
IN FUND BALANCES - GOVERNMENTAL FUNDS - MODIFIED CASH BASIS

For The Year Ended June 30, 2011

	General Fund	Road Fund	Federal Grants Fund	E-911 Fund
REVENUES				
Taxes	\$ 3,842,657	\$	\$	\$ 256,151
In Lieu Tax Payments	3,355			
Excess Fees	34,611			
Licenses and Permits	11,411			
Intergovernmental	695,844	1,239,827	112,537	118,445
Charges for Services	1,610			
Miscellaneous	76,224	62,109		44,905
Interest	13,854	345		180
Total Revenues	<u>4,679,566</u>	<u>1,302,281</u>	<u>112,537</u>	<u>419,681</u>
EXPENDITURES				
General Government	1,349,774			
Protection to Persons and Property	819,453			566,167
General Health and Sanitation	268,659			
Social Services	99,538			
Recreation and Culture	223,953			
Roads		2,449,315		
Airports	10,000			
Bus Services	11,988			
Other Transportation Facilities and Services	3,000			
Debt Service:				
Principal	18,106	205,970		
Interest		2,454		
Bond Issuance Cost				
Capital Projects	40,597	98,507		
Administration	662,949	249,421		
Total Expenditures	<u>3,508,017</u>	<u>3,005,667</u>		<u>566,167</u>
Excess (Deficiency) of Revenues Over Expenditures Before Other Financing Sources (Uses)	<u>1,171,549</u>	<u>(1,703,386)</u>	<u>112,537</u>	<u>(146,486)</u>
Other Financing Sources (Uses)				
Bond Issuance				
Premium On Bond Issuance				
Payment to Refund Bonds - 2001 Issuance				
Financing Obligation Proceeds		233,200		
Transfers From Other Funds		1,292,537		44,592
Transfers To Other Funds	(1,228,412)		(112,537)	
Total Other Financing Sources (Uses)	<u>(1,228,412)</u>	<u>1,525,737</u>	<u>(112,537)</u>	<u>44,592</u>
Net Change in Fund Balances	(56,863)	(177,649)		(101,894)
Fund Balances - Beginning	1,258,017	198,345	22,193	127,765
Fund Balances - Ending	<u>\$ 1,201,154</u>	<u>\$ 20,696</u>	<u>\$ 22,193</u>	<u>\$ 25,871</u>

The accompanying notes are an integral part of the financial statements.

HARRISON COUNTY
STATEMENT OF REVENUES, EXPENDITURES,
AND CHANGES IN FUND BALANCES - GOVERNMENTAL FUNDS - MODIFIED CASH BASIS
For The Year Ended June 30, 2011
(Continued)

Shropshire Fund	Public Properties Corporation Fund	Total Governmental Funds
\$	\$	\$ 4,098,808
		3,355
		34,611
3,478		14,889
	325,067	2,491,720
24,820		26,430
3,724		186,962
2,860	9,420	26,659
34,882	334,487	6,883,434
		1,349,774
		1,385,620
38,646		307,305
		99,538
		223,953
		2,449,315
		10,000
		11,988
		3,000
	235,000	459,076
	88,567	91,021
	120,064	120,064
		139,104
	1,500	913,870
38,646	445,131	7,563,628
(3,764)	(110,644)	(680,194)
	4,520,000	4,520,000
	70,238	70,238
	(4,467,937)	(4,467,937)
		233,200
3,820		1,340,949
		(1,340,949)
3,820	122,301	355,501
56	11,657	(324,693)
232,297	16,211	1,854,828
\$ 232,353	\$ 27,868	\$ 1,530,135

The accompanying notes are an integral part of the financial statements.

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**HARRISON COUNTY
RECONCILIATION OF THE STATEMENT OF REVENUES,
EXPENDITURES, AND CHANGES IN FUND BALANCES OF
GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES - MODIFIED CASH BASIS**

For The Year Ended June 30, 2011

HARRISON COUNTY
RECONCILIATION OF THE STATEMENT OF REVENUES,
EXPENDITURES, AND CHANGES IN FUND BALANCES OF
GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES - MODIFIED CASH BASIS

For The Year Ended June 30, 2011

Net Change in Fund Balances - Total Governmental Funds \$ (324,693)

Amounts reported for governmental activities in the Statement of Activities are different because:

Contribution from the Community Action Council for on-behalf payment made to reduce debt incurred by the county for the community service building renovation and also reduces the note receivable recorded in the governmental activities. (13,667)

Contribution from the Senior Citizens Center for on-behalf payment made to reduce debt incurred by the county for the Senior Citizens Center vehicle and also reduces the note receivable recorded in the governmental activities. (4,439)

Governmental Funds report capital outlays as expenditures. However, in the Statement of Activities the cost of those assets are allocated over their estimated useful lives and reported as depreciation expense.

Capital Outlay	1,777,149
Depreciation Expense	(1,141,520)
Assets disposed of, net book value	(10,000)
Assets Purchased, Held for Resale	233,200

The issuance of long-term debt (e.g. bonds, financing obligations) provides current financial resources to governmental funds, while repayment of principal on long-term debt consumes the current financial resources of Governmental Funds. These transactions, however, have no effect on net assets.

Bond Issuance Proceeds	(4,520,000)
Financing Obligation Proceeds	(233,200)
Financing Obligations Payments	224,076
Payment to Escrow Agent for Bond Issuance Refunding	4,270,000
Deferred Bond Issuance Costs	71,982
Deferred Discount On Bonds	38,076
Bond Payment, Principal	235,000

Change in Net Assets of Governmental Activities	\$ 601,964
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**INDEX FOR NOTES
TO THE FINANCIAL STATEMENTS**

NOTE 1.	SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES	25
NOTE 2.	DEPOSITS.....	30
NOTE 3.	TRANSFERS	31
NOTE 4.	CAPITAL ASSETS	31
NOTE 5.	LONG-TERM DEBT.....	32
NOTE 6.	RELATED PARTY TRANSACTIONS	34
NOTE 7.	COMMITMENTS AND CONTINGENCIES	35
NOTE 8.	EMPLOYEE RETIREMENT SYSTEM	36
NOTE 9.	DEFERRED COMPENSATION	37
NOTE 10.	INSURANCE.....	37
NOTE 11.	PRIOR PERIOD ADJUSTMENT.....	37

HARRISON COUNTY
NOTES TO FINANCIAL STATEMENTS

June 30, 2011

Note 1. Summary of Significant Accounting Policies

A. Basis of Presentation

The county presents its government-wide and fund financial statements in accordance with a modified cash basis of accounting, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America. Under this basis of accounting, assets, liabilities, and related revenues and expenditures are recorded when they result from cash transactions, with a few exceptions. This modified cash basis recognizes revenues when received and expenditures when paid. Notes receivable are recognized on the Statement of Net Assets, but notes receivable are not included and recognized on Balance Sheet - Governmental Funds. Property tax receivables, accounts payable, compensated absences, and donated assets are not reflected in the financial statements.

The State Local Finance Officer does not require the county to report capital assets and infrastructure; however the value of these assets is included in the Statement of Net Assets and the corresponding depreciation expense is included on the Statement of Activities.

B. Reporting Entity

The financial statements of Harrison County include the funds, agencies, boards, and entities for which the fiscal court is financially accountable. Financial accountability, as defined by Section 2100 of the Governmental Accounting Standards Board (GASB) Codification of Governmental Accounting and Financial Reporting Standards, as amended by GASB 14 and GASB 39, was determined on the basis of the government's ability to significantly influence operations, select the governing authority, participate in fiscal management and the scope of public service. Consequently, the reporting entity includes organizations that are legally separate from the primary government. Legally separate organizations are reported as component units if either the county is financially accountable or the organization's exclusion would cause the county's financial statements to be misleading or incomplete. Component units may be blended or discretely presented. Blended component units either provide their services exclusively or almost entirely to the primary government, or their governing bodies are substantively the same as the primary government. All other component units are discretely presented.

Blended Component Units

The following legally separate organization provides its services exclusively to the primary government, and the fiscal court is able to impose its will on this organization. The organizations' balances and transactions are reported as though they are part of the county's primary government using the blending method.

Harrison County Public Properties Corporation:

The Harrison County Public Properties Corporation cannot be sued in its own name without recourse to the Harrison County Fiscal Court, who appoints a voting majority consisting of the Fiscal Court members and the County Attorney. The Fiscal Court is able to impose its will on the Corporation. The Corporation is created solely for the benefit of the Fiscal Court per KRS 58.180 to act as the agency in the acquisition and financing of any public project. The Fiscal Court has access to the Corporation's resources, is legally obligated to finance the debts of or provide financial support to the Corporation. The Corporation is financially accountable to the Fiscal Court. This component unit is blended within the financial statements of the county.

HARRISON COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2011
(Continued)

Note 1. Summary of Significant Accounting Policies (Continued)

C. Harrison County Elected Officials

Kentucky law provides for election of the officials below from the geographic area constituting Harrison County. Pursuant to state statute, these officials perform various services for the Commonwealth of Kentucky, its judicial courts, the fiscal court, various cities and special districts within the county, and the board of education. In exercising these responsibilities, however, they are required to comply with state laws. Audits of their financial statements are issued separately and individually and can be obtained from their respective administrative offices. These financial statements are not required to be included in the financial statements of Harrison County, Kentucky.

- Circuit Court Clerk
- County Attorney
- Property Valuation Administrator
- County Clerk
- County Sheriff

D. Government-wide and Fund Financial Statements

The government-wide financial statements (i.e., the statement of net assets and the statement of activities) report information on all of the non-fiduciary activities of the primary government and its non-fiduciary component units. For the most part, the effect of interfund activities has been removed from these statements. Governmental activities, which normally are supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on sales, fees, and charges for support. Business-type revenues come mostly from fees charged to external parties for goods or services. Fiduciary funds are not included in these financial statements due to the unavailability of fiduciary funds to aid in the support of government programs.

The statement of net assets presents the reporting entity's non-fiduciary assets and liabilities, the difference between the two being reported as net assets. Net assets are reported in three categories: 1) invested in capital assets, net of related debt - consisting of capital assets, net of accumulated depreciation and reduced by outstanding balances for debt related to the acquisition, construction, or improvement of those assets; 2) restricted net assets - resulting from constraints placed on net assets by creditors, grantors, contributors, and other external parties, including those constraints imposed by law through constitutional provisions or enabling legislation; and 3) unrestricted net assets - those assets that do not meet the definition of restricted net assets or invested in capital assets.

The statement of activities demonstrates the degree to which the direct expenses of a given function are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function. Program revenues include: 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function; 2) operating grants and contributions; and 3) capital grants and contributions that are restricted to meeting the operational or capital requirements of a particular function. Internally dedicated resources such as taxes and unrestricted state funds are reported as general revenues.

Generally and except as otherwise provided by law, property taxes are assessed as of January 1, levied (mailed) November 1, due at discount November 30, due at face value December 31, delinquent January 1 following the assessment, and subject to sale ninety days following April 15.

HARRISON COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2011
(Continued)

Note 1. Summary of Significant Accounting Policies (Continued)

D. Government-wide and Fund Financial Statements (Continued)

Funds are characterized as either major or non-major. Major funds are those whose assets, liabilities, revenues, or expenditures/expenses are at least ten percent of the corresponding total (assets, liabilities, etc.) for all funds or type (governmental or proprietary) and whose total assets, liabilities, revenues, or expenditures/expenses are at least five percent of the corresponding total for all governmental and enterprise funds combined. The fiscal court may also designate any fund as major.

Separate financial statements are provided for governmental funds, proprietary funds, and fiduciary funds. Major individual governmental funds and major enterprise funds are reported as separate columns in the financial statements.

Governmental Funds

The primary government reports the following major governmental funds:

General Fund - This is the primary operating fund of the fiscal court. It accounts for all financial resources of the general government, except where the Department for Local Government requires a separate fund or where management requires that a separate fund be used for some function.

Road Fund - This fund is for road and bridge construction and repair. The primary source of revenue for this fund is state payments for truck licenses distribution, municipal road aid, and transportation grants. The Department for Local Government requires the fiscal court to maintain these receipts and expenditures separately from the General Fund.

Federal Grants Fund - The purpose of this fund is to account for federal grant funds received and expended.

E-911 Fund - The purpose of this fund is to account for revenues and expenditures of the E-911.

Shropshire Fund - The purpose of this fund is to account for the revenues and expenditures of the Shropshire Animal Shelter.

Public Properties Corporation Fund - This fund accounts for the activities of the Public Properties Corporation, a blended component unit of the county. The Public Properties Corporation issued debt to build a justice center. The Public Properties Corporation entered into a contract, lease, and option with the County and Administrative Office of The Courts (AOC), Commonwealth of Kentucky. The Department for Local Government does not require the Fiscal Court to report or budget these funds.

The primary government designated all its funds as major funds; therefore there are no non-major funds.

Special Revenue Funds:

The Road Fund, Federal Grants Fund, E-911 Fund, and Shropshire Fund are presented as special revenue funds. Special revenue funds are to account for the proceeds of specific revenue sources and expenditures that are legally restricted for specific purposes.

Debt Service Fund:

The Public Properties Corporation Fund is presented as a debt service fund. Debt service funds are to account for the accumulation of resources for, and the payment of general long-term debt principal and interest.

HARRISON COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2011
(Continued)

Note 1. Summary of Significant Accounting Policies (Continued)

E. Deposits and Investments

The government's cash and cash equivalents are considered to be cash on hand, demand deposits, certificates of deposit, and short-term investments with original maturities of three months or less from the date of acquisition.

KRS 66.480 authorizes the county to invest in the following, including but not limited to, obligations of the United States and of its agencies and instrumentalities, obligations and contracts for future delivery or purchase of obligations backed by the full faith and credit of the United States, obligations of any corporation of the United States government, bonds or certificates of indebtedness of this state, and certificates of deposit issued by or other interest-bearing accounts of any bank or savings and loan institution which are insured by the Federal Deposit Insurance Corporation (FDIC) or which are collateralized, to the extent uninsured, by any obligation permitted by KRS 41.240(4).

F. Capital Assets

Capital assets, which include land, land improvements, buildings, furniture and office equipment, building improvements, machinery, equipment, and infrastructure assets (roads and bridges) that have a useful life of more than one reporting period based on the government's capitalization policy, are reported in the applicable governmental or business-type activities of the government-wide financial statements. Such assets are recorded at historical cost or estimated historical cost when purchased or constructed.

Cost of normal maintenance and repairs that do not add to the value of the asset or materially extend the asset's life are not capitalized. Land and Construction In Progress are not depreciated. Interest incurred during construction is not capitalized. Capital assets and infrastructure are depreciated using the straight-line method of depreciation over the estimated useful life of the asset.

	Capitalization Threshold	Useful Life (Years)
Land Improvements	\$ 5,000	10-60
Buildings and Improvements	\$ 5,000	10-75
Machinery and Equipment	\$ 5,000	3-25
Vehicles	\$ 5,000	3-25
Infrastructure	\$ 5,000	10-50

G. Long-term Obligations

In the government-wide financial statements and proprietary fund types in the fund financial statements, long term debt and other long-term obligations are reported as liabilities in the applicable financial statements. The principal amount of bonds, notes and financing obligations are reported.

In the fund financial statements, governmental fund types recognize bond interest, as well as bond issuance costs when received or when paid, during the current period. The principal amount of the debt and interest are reported as expenditures. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as expenditures. Debt proceeds are reported as other financing sources.

HARRISON COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2011
(Continued)

Note 1. Summary of Significant Accounting Policies (Continued)

H. Fund Equity

In the fund financial statements, the difference between the assets and liabilities of governmental funds is reported as fund balance. Fund balance is divided into non-spendable and spendable components, if applicable.

Non-spendable includes amounts that must be maintained intact legally or contractually.

Spendable include the following:

- Restricted-amounts constrained for a specific purpose by external parties, constitutional provisions, or enabling legislation.
- Committed-amounts constrained for a specific purpose by the county using its highest level of decision making authority.
- Assigned-for all governmental funds, other than general fund, any remaining positive amounts not classified as non-spendable, restricted, or committed. For the general fund, amounts constrained by intent to be used for a specified purpose by the County or the delegated county committee or official given authority to assign amounts.
- Unassigned-for the general fund, amounts not classified as non-spendable, restricted, committed or assigned. For all other governmental funds, amount expended in excess of resources that are non-spendable, restricted, committed or assigned.

For resources considered committed, the county issues an ordinance or resolution that can only be changed with another corresponding ordinance or resolution.

For resources considered assigned, the county has designated the County Judge/Executive and County Treasurer to carry out the intent of the fiscal court.

It is the policy of the County to spend restricted resources first, when both restricted and unrestricted resources are available to spend on the activity. Once restricted resources are exhausted, then committed, assigned and unassigned resources will be spent in that order on the activity.

Encumbrances, although not reported on the balance sheet, are purchase orders that will be fulfilled in a subsequent fiscal period. Although the purchase order or contract creates a legal commitment, the fiscal court incurs no liability until performance has occurred on the part of the party with whom the fiscal court has entered into the arrangement. When a government intends to honor outstanding commitments in subsequent periods, such amounts are encumbered. Due to the modified cash basis of accounting, encumbrances can also include invoices for goods or services received at June 30, but not yet paid and not included as an accounts payable. Significant encumbrances at year end are reported by major funds and non-major funds in the aggregate and included with the commitments and contingencies note disclosure, if applicable.

HARRISON COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2011
(Continued)

Note 1. Summary of Significant Accounting Policies (Continued)

I. Budgetary Information

Annual budgets are adopted on a cash basis of accounting and according to the laws of Kentucky as required by the State Local Finance Officer. Formal budgets are not adopted, nor are they required by the State Local Finance Office for the Public Properties Corporation Fund.

The County Judge/Executive is required to submit estimated receipts and proposed expenditures to the fiscal court by May 1 of each year. The budget is prepared by fund, function, and activity and is required to be adopted by the fiscal court by July 1.

The fiscal court may change the original budget by transferring appropriations at the activity level; however, the fiscal court may not increase the total budget without approval by the State Local Finance Officer. Expenditures may not exceed budgeted appropriations at the activity level.

J. Related Organizations, Joint Venture, and Jointly Governed Organizations

A legal entity or other organization that results from a contractual agreement and that is owned, operated, or governed by two or more participants as a separate activity subject to joint control, in which the participants retain (a) an ongoing financial interest or (b) an ongoing financial responsibility is a joint venture. Based upon these criteria, the following are considered joint ventures of Harrison County Fiscal Court: Cynthiana/Harrison County Public Properties Corporation, Cynthiana/Harrison County Industrial Authority, and Cynthiana/Berry/Harrison County E-911.

Note 2. Deposits

The primary government and component unit maintained deposits of public funds with depository institutions insured by the Federal Deposit Insurance Corporation (FDIC) as required by KRS 66.480(1)(D).. According to KRS 41.240(4), the depository institution should pledge or provide sufficient collateral which, together with FDIC insurance, equals or exceeds the amount of public funds on deposit at all times. In order to be valid against the FDIC in the event of failure or insolvency of the depository institution, this pledge or provision of collateral should be evidenced by an agreement between the county and the depository institution, signed by both parties, that is (a) in writing, (b) approved by the board of directors of the depository institution or its loan committee, which approval must be reflected in the minutes of the board or committee, and (c) an official record of the depository institution. These requirements were met.

Custodial Credit Risk – Deposits

Custodial credit risk is the risk that in the event of a depository institution failure, the government's deposits may not be returned. The government does not have a deposit policy for custodial credit risk, but rather follows the requirements of KRS 41.240 (4). As of June 30, 2011, all deposits were covered by FDIC insurance or a properly executed collateral security agreement. However, as of August 31, 2010 public funds were exposed to custodial credit risk because the bank did not adequately collateralize the Fiscal Court's deposits in accordance with the security agreement as follows:

- Uncollateralized and Uninsured as of August 31, 2010 - \$98,188

HARRISON COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2011
(Continued)

Note 3. Transfers

	General Fund	Federal Grants Fund	Total Transfers In
Road Fund	\$ 1,180,000	\$ 112,537	\$ 1,292,537
E-911 Fund	44,592		44,592
Shropshire Fund	3,820		3,820
Total Transfers Out	<u>\$ 1,228,412</u>	<u>\$ 112,537</u>	<u>\$ 1,340,949</u>

Note 4. Capital Assets

Capital asset activity for the year ended June 30, 2011 was as follows:

	Reporting Entity		
	Beginning Balance	Increases	Decreases
Ending Balance			
Primary Government:			
Governmental Activities:			
Capital Assets Not Being Depreciated:			
Land	\$ 488,500	\$	\$ 488,500
Construction In Progress	247,421	126,329	(303,243)
Total Capital Assets Not Being Depreciated	735,921	126,329	(303,243)
Capital Assets, Being Depreciated:			
Buildings and Improvements	6,416,903	343,869	6,760,772
Land Improvements	125,691	39,265	164,956
Other Equipment	1,099,536	17,930	(102,163)
Vehicles and Equipment	1,614,776	155,369	1,770,145
Infrastructure	18,632,099	1,397,630	20,029,729
Total Capital Assets Being Depreciated	27,889,005	1,954,063	(102,163)
Less Accumulated Depreciation For:			
Buildings and Improvements	(885,222)	(103,126)	(988,348)
Land Improvements	(29,278)	(9,677)	(38,955)
Other Equipment	(580,391)	(60,162)	92,163
Vehicles and Equipment (restated)	(1,097,713)	(81,326)	(1,179,039)
Infrastructure	(10,616,887)	(887,229)	(11,504,116)
Total Accumulated Depreciation	(13,209,491)	(1,141,520)	92,163
Total Capital Assets, Being Depreciated, Net	14,679,514	812,543	(10,000)
Governmental Activities Capital Assets, Net	<u>\$ 15,415,435</u>	<u>\$ 938,872</u>	<u>\$ (313,243)</u>
			<u>\$ 16,041,064</u>

HARRISON COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2011
(Continued)

Note 4. Capital Assets (Continued)

Depreciation expense was charged to functions of the primary government as follows:

Governmental Activities:

General Government	\$ 113,949
Protection to Persons and Property	52,606
General Health and Sanitation	1,535
Recreation and Culture	21,976
Roads, Including Depreciation of General Infrastructure Assets	<u>951,454</u>
Total Depreciation Expense - Governmental Activities	<u>\$ 1,141,520</u>

Note 5. Long-term Debt

A. First Mortgage Revenue Refunding Bonds, Series 2010

On July 1, 2010, Harrison County Public Properties Corporation issued \$4,520,000 in First Mortgage Revenue Refunding Bonds, Series 2010, for the purpose of retiring the debt incurred for the construction of a Justice Center. The refunding bond issue covers a twelve-year period with an annual principal payment due each March 1, beginning March 1, 2011. Interest is payable semi-annually each September 1 and March 1, beginning September 1, 2010. The county subsequently entered into a sub-lease agreement with the Administrative Office of the Courts in order to provide funding to meet annual debt service requirements. The total principal balance outstanding was \$4,285,000 as of June 30, 2011.

Fiscal Year Ending June 30	Governmental Activities	
	Principal	Interest
2012	\$ 340,000	\$ 128,150
2013	350,000	121,350
2014	360,000	114,350
2015	370,000	107,150
2016	380,000	97,900
2017-2021	2,035,000	309,825
2022	<u>450,000</u>	<u>18,000</u>
Totals	<u>\$ 4,285,000</u>	<u>\$ 896,725</u>

HARRISON COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2011
(Continued)

Note 5. Long-term Debt (Continued)

B. Financing Obligations, Capital Lease (Community Service Building Renovation), and Note Receivable

On December 17, 2002, Harrison County Fiscal Court entered into a ten-year lease agreement with the Kentucky Association of Counties Leasing Trust (KACoLT), in the amount of \$127,396, for the renovation of the Community Service Building. The lease agreement calls for yearly principal payments due in January of each year starting in January 2004 and monthly interest payments starting in February 2003. The county subsequently entered into a sub-lease agreement with the Community Action Council for Lexington-Fayette, Bourbon, Harrison, and Nicholas Counties, Inc., which pays the lease payments directly to KACoLT. The total lease principal balance outstanding was \$28,577 as of June 30, 2011. The total note receivable balance due the county as of June 30, 2011, was also \$28,577.

Fiscal Year Ending June 30	Governmental Activities	
	Principal	Interest & Fees
2012	\$ 14,077	\$ 996
2013	14,500	371
Totals	<u>\$ 28,577</u>	<u>\$ 1,367</u>

C. Financing Obligations, Capital Lease (Senior Citizens Center Vehicle), and Note Receivable

On April 7, 2009, Harrison County Fiscal Court entered into a lease agreement with the Kentucky Association of Counties Leasing Trust Program (KACoLT), in the amount of \$23,000, for the purchase of a vehicle for the Harrison County Senior Citizens Center. The agreement requires monthly payments of varying amounts with an interest rate of 3.00%. The Senior Citizens Center is currently making the monthly payments to KACoLT. The lease is to be paid in full on March 20, 2014. The total lease principal balance outstanding was \$13,286 as of June 30, 2011. The total note receivable balance due the county as of June 30, 2011, was also \$13,286.

Fiscal Year Ending June 30	Governmental Activities	
	Principal	Interest
2012	\$ 4,642	\$ 673
2013	4,856	476
2014	3,788	222
Totals	<u>\$ 13,286</u>	<u>\$ 1,371</u>

HARRISON COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2011
(Continued)

Note 5. Long-term Debt (Continued)

D. Financing Obligations, Capital Lease (Mack Trucks)

On May 27, 2011, Harrison County Fiscal Court entered into a lease agreement with the Kentucky Association of Counties Leasing Trust Program (KACoLT), in the amount of \$233,200, for the purchase of two (2) Mack Trucks. The agreement requires monthly interest payments based on a variable rate of interest (LIBOR + 3.40%), with principal payments due June 20, 2012, June 20, 2013, and June 20, 2014 in the amounts indicated below. The lease is to be paid in full on June 20, 2014.

Fiscal Year Ending June 30	Governmental Activities	
	Principal	Interest
2012	\$ 77,733	\$ 10,611
2013	77,733	7,074
2014	77,734	3,537
Totals	<u>\$ 233,200</u>	<u>\$ 21,222</u>

E. Changes In Long-term Liabilities

Long-term liability activity for the year ended June 30, 2011, was as follows:

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Primary Government:					
<u>Governmental Activities:</u>					
Revenue Bonds	\$ 4,270,000	\$	\$ 4,270,000	\$	\$
Revenue Refunding Bonds		4,520,000	235,000	4,285,000	340,000
Financing Obligations	<u>265,939</u>	<u>233,200</u>	<u>224,076</u>	<u>275,063</u>	<u>96,452</u>
Governmental Activities					
Long-term Liabilities	<u>\$ 4,535,939</u>	<u>\$ 4,753,200</u>	<u>\$ 4,729,076</u>	<u>\$ 4,560,063</u>	<u>\$ 436,452</u>

Note 6. Related Party Transactions

Former Magistrate Brad Marshall's son owns Marshall's Tractor Parts, located in Cynthiana, Kentucky. The fiscal court occasionally purchases tractor parts from them. The total spent during fiscal year 2011 was \$401.

HARRISON COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2011
(Continued)

Note 7. Commitments and Contingencies

A. Cynthiana/Harrison County Public Properties Corporation

In June 1995, the Harrison County Fiscal Court (County) and the City of Cynthiana (City) formed the Cynthiana/Harrison County Public Properties Corporation (Corporation) for the acquisition and financing of the Cynthiana/Harrison County Community Service Building project. Upon formation of the Corporation, individual and corporate donations were received and the City received a \$350,000 CDBG grant to construct the community service building. The donations and grant were expected to be approximately \$500,000 short of the anticipated construction costs. The Corporation executed a loan agreement with Farmers National Bank to draw up to \$499,000 in order to complete the project. The rent collected from several community service organizations is used to service the debt. The Corporation is managed by the City, and there has been no audit performed for the Corporation in numerous years. Should the Corporation default on the loan at Farmers National Bank, the County could be responsible for one-half of the outstanding liabilities. As of June 30, 2011, the outstanding principal balance was \$363,260.

B. Cynthiana/Harrison County Industrial Authority

In January 1999, Harrison County Fiscal Court (the County) adopted a resolution, which obligates the county (in conjunction with the City of Cynthiana's matching offer) to cover fifty percent of any expenses "not covered from net sales proceeds of land by the Cynthiana/Harrison County Industrial Authority" (the Authority). This obligation was made in support of the Authority's project to develop an industrial park in Harrison County. In this resolution, the County also committed "the sum of two hundred fifty thousand (\$250,000) dollars" in order for the Authority to receive an additional one and one-half million (\$1,500,000) dollar federal grant. The County's commitment represents one-half of the matching funds needed (in conjunction with the City's matching offer) for the Authority to receive the additional funding. The Authority obtained an \$800,000 loan for the purchase of the land for the project. As of June 30, 2011, the outstanding principal balance on the loan was \$586,713. During the fiscal year ended June 30, 2011, the county paid the Authority \$51,250 for their share of the operating expenses of the Authority.

C. Cynthiana/Berry/Harrison County E-911

In April 1999, Harrison County Fiscal Court (the County) passed an ordinance for "the establishment of an Enhanced 911 Emergency Telephone Service within Cynthiana and Harrison County, Kentucky." An E-911 Advisory Board (the Board) was created with the City of Cynthiana (the City) and the County equally represented on the Board. The City and County subsequently entered into an interlocal agreement which states, in part, "The cost of the E-911 program shall be funded from the receipts from a telephone service surcharge, which has been levied by the County to be collected by the appropriate telephone operating company on each eligible business and residential telephone line operating within Harrison County. The County may fix or change the rate of the telephone surcharge to be applied, but it shall be sufficient to meet the budgetary requirements for the operation of the E-911 program. If at any time moneys collected from the telephone surcharge are insufficient to meet the needs and obligations of the Board for the operation of the E-911 program, the remaining costs shall be apportioned evenly (50/50) between the City and the County and immediately forwarded to the Harrison County Treasurer for use by the Board in the operation of the Center." The assessment fee during the year of audit was \$4 (four dollars) per month for each telephone line within the City and County, and during the fiscal year ended June 30, 2010; the County contributed \$44,592 toward the operating expenses of the E-911 program and the City contributed \$44,592.

HARRISON COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2011
(Continued)

Note 8. Employee Retirement System

The fiscal court has elected to participate in the County Employees Retirement System (CERS), pursuant to KRS 78.530 administered by the Board of Trustees of the Kentucky Retirement Systems. This is a cost sharing, multiple employer defined benefit pension plan, which covers all eligible full-time employees and provides for retirement, disability and death benefits to plan members. Benefit contributions and provisions are established by statute.

Nonhazardous covered employees are required to contribute 5 percent of their salary to the plan. Nonhazardous covered employees who begin participation on or after September 1, 2008 are required to contribute 6 percent of their salary to the plan. The county's contribution rate for nonhazardous employees was 16.93 percent.

Hazardous covered employees are required to contribute 8 percent of their salary to the plan. Hazardous covered employees who begin participation on or after September 1, 2008 are required to contribute 9 percent of their salary to be allocated as follows: 8% will go to the member's account and 1% will go to the KRS insurance fund. The county's contribution rate for hazardous employees was 33.25 percent.

The county's contribution for FY 2009 was \$283,160, FY 2010 was \$334,059, and FY 2011 was \$346,675.

Benefits fully vest on reaching five years of service for nonhazardous employees. Aspects of benefits for nonhazardous employees include retirement after 27 years of service or age 65. Nonhazardous employees who begin participation on or after September 1, 2008 must meet the rule of 87 (members age plus years of service credit must equal 87, and the member must be a minimum of 57 years of age) or the member is age 65, with a minimum of 60 months service credit.

Aspects of benefits for hazardous employees include retirement after 20 years of service or age 55. For hazardous employees who begin participation on or after September 1, 2008 aspects of benefits include retirement after 25 years of service or the member is age 60, with a minimum of 60 months of service credit.

CERS also provides post retirement health care coverage as follows:

For members participating prior to July 1, 2003, years of service and respective percentages of the maximum contribution are as follows:

Years of Service	% paid by Insurance Fund	% Paid by Member through Payroll Deduction
20 or more	100%	0%
15-19	75%	25%
10-14	50%	50%
4-9	25%	75%
Less than 4	0%	100%

As a result of House Bill 290 (2004 General Assembly), medical insurance benefits are calculated differently for members who began participation on or after July 1, 2003. Once members reach a minimum vesting period of ten years, non-hazardous employees whose participation began on or after July 1, 2003, earn ten dollars per month for insurance benefits at retirement for every year of earned service without regard to a maximum dollar amount.

HARRISON COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2011
(Continued)

Note 8. Employee Retirement System (Continued)

Hazardous employees whose participation began on or after July 1, 2003, earn fifteen dollars per month for insurance benefits at retirement for every year of earned service without regard to a maximum dollar amount. Upon the death of a hazardous employee, such employee's spouse receives ten dollars per month for insurance benefits for each year of the deceased employee's hazardous service. This dollar amount is subject to adjustment annually based on the retiree cost of living adjustment, which is updated annually due to changes in the Consumer Price Index.

Historical trend information showing the CERS' progress in accumulating sufficient assets to pay benefits when due is presented in the Kentucky Retirement Systems' annual financial report. This report may be obtained by writing the Kentucky Retirement Systems, 1260 Louisville Road, Frankfort, KY 40601-6124, or by telephone at (502) 564-4646.

Note 9. Deferred Compensation

Harrison County Fiscal Court allows all eligible employees to participate in deferred compensation plans administered by The Kentucky Public Employees' Deferred Compensation Authority. The Kentucky Public Employees' Deferred Compensation Authority is authorized under KRS 18A.230 to 18A.275 to provide administration of tax sheltered supplemental retirement plans for all state, public school and university employees and employees of local political subdivisions that have elected to participate.

These deferred compensation plans permits all full time employees to defer a portion of their salary until future years. The deferred compensation is not available to employees until termination, retirement, death, or unforeseeable emergency. Participation by eligible employees in the deferred compensation plans is voluntary.

Historical trend information showing The Kentucky Public Employees' Deferred Compensation Authority's progress in accumulating sufficient assets to pay benefits when due is presented in The Kentucky Public Employees' Deferred Compensation Authority's annual financial report. This report may be obtained by writing Kentucky Public Employees' Deferred Compensation Authority at 105 Sea Hero Road, Suite 1, Frankfort, KY 40601-8862, or by telephone at (502) 573-7925.

Note 10. Insurance

For the fiscal year ended June 30, 2011, Harrison County was a member of the Kentucky Association of Counties' All Lines Fund (KALF). KALF is a self-insurance fund and was organized to obtain lower cost coverage for general liability, property damage, public officials' errors and omissions, public liability, and other damages. The basic nature of a self-insurance program is that of a collectively shared risk by its members. If losses incurred for covered claims exceed the resources contributed by the members, the members are responsible for payment of the excess losses.

Note 11. Prior Period Adjustment

Prior year ending balance of Net Assets has been restated. The restatement is to correct a miscalculation in depreciation of capital assets. The correction resulted in an increase of \$16,670 in the current year's beginning net assets.

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HARRISON COUNTY
BUDGETARY COMPARISON SCHEDULES
Required Supplementary Information - Modified Cash Basis
For The Year Ended June 30, 2011

HARRISON COUNTY
BUDGETARY COMPARISON SCHEDULES
Required Supplementary Information - Modified Cash Basis

For The Year Ended June 30, 2011

	GENERAL FUND			
	Budgeted Amounts		Actual	Variance with
	Original	Final	Amounts, (Budgetary Basis)	Final Budget Positive (Negative)
REVENUES				
Taxes	\$ 3,442,000	\$ 3,442,000	\$ 3,842,657	\$ 400,657
In Lieu Tax Payments	4,100	4,100	3,355	(745)
Excess Fees	25,000	25,000	34,611	9,611
Licenses and Permits	15,000	15,000	11,411	(3,589)
Intergovernmental Revenue	897,010	897,010	590,642	(306,368)
Charges for Services				
Miscellaneous	103,000	103,000	71,572	(31,428)
Interest	25,000	25,000	13,854	(11,146)
Total Revenues	<u>4,511,110</u>	<u>4,511,110</u>	<u>4,568,102</u>	<u>56,992</u>
EXPENDITURES				
General Government	1,548,713	1,634,836	1,349,774	285,062
Protection to Persons and Property	356,766	383,766	306,732	77,034
General Health and Sanitation	371,200	372,100	268,659	103,441
Social Services	129,900	134,000	99,538	34,462
Recreation and Culture	436,730	517,230	223,953	293,277
Airports	10,000	10,000	10,000	
Bus Services	12,000	12,000	11,988	12
Other Transportation Facilities and Services	3,000	3,000	3,000	
Capital Projects	215,000	193,000	40,597	152,403
Administration	843,406	666,783	623,751	43,032
Total Expenditures	<u>3,926,715</u>	<u>3,926,715</u>	<u>2,937,992</u>	<u>988,723</u>
Excess (Deficiency) of Revenues Over Expenditures Before Other Financing Sources (Uses)	<u>584,395</u>	<u>584,395</u>	<u>1,630,110</u>	<u>1,045,715</u>
OTHER FINANCING SOURCES (USES)				
Transfers To Other Funds	<u>(2,517,848)</u>	<u>(2,517,848)</u>	<u>(1,700,512)</u>	<u>817,336</u>
Total Other Financing Sources (Uses)	<u>(2,517,848)</u>	<u>(2,517,848)</u>	<u>(1,700,512)</u>	<u>817,336</u>
Net Changes in Fund Balance	(1,933,453)	(1,933,453)	(70,402)	1,863,051
Fund Balance - Beginning	<u>1,933,453</u>	<u>1,933,453</u>	<u>1,239,934</u>	<u>693,519</u>
Fund Balance - Ending	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 1,169,532</u>	<u>\$ 1,169,532</u>

HARRISON COUNTY
BUDGETARY COMPARISON SCHEDULES
Required Supplementary Information - Modified Cash Basis
For The Year Ended June 30, 2011
(Continued)

	ROAD FUND			
	Budgeted Amounts		Actual Amounts, (Budgetary Basis)	Variance with Final Budget Positive (Negative)
	Original	Final		
REVENUES				
Intergovernmental Revenue	\$ 1,072,095	\$ 1,072,095	\$ 1,239,827	\$ 167,732
Miscellaneous	26,000	26,000	62,109	36,109
Interest	1,500	1,500	345	(1,155)
Total Revenues	1,099,595	1,099,595	1,302,281	202,686
EXPENDITURES				
Roads	2,587,901	2,490,821	2,449,315	41,506
Debt Service	50,000	210,000	208,424	1,576
Capital Projects	195,000	185,000	98,507	86,493
Administration	374,050	321,130	249,421	71,709
Total Expenditures	3,206,951	3,206,951	3,005,667	201,284
Excess (Deficiency) of Revenues Over Expenditures Before Other Financing Sources (Uses)	(2,107,356)	(2,107,356)	(1,703,386)	403,970
OTHER FINANCING SOURCES (USES)				
Financing Obligation Proceeds			233,200	233,200
Transfers From Other Funds	1,967,356	1,967,356	1,292,537	(674,819)
Total Other Financing Sources (Uses)	1,967,356	1,967,356	1,525,737	(441,619)
Net Changes in Fund Balance	(140,000)	(140,000)	(177,649)	(37,649)
Fund Balance - Beginning	140,000	140,000	198,345	58,345
Fund Balance - Ending	\$ 0	\$ 0	\$ 20,696	\$ 20,696

HARRISON COUNTY
BUDGETARY COMPARISON SCHEDULES
Required Supplementary Information - Modified Cash Basis
For The Year Ended June 30, 2011
(Continued)

	FEDERAL GRANTS FUND			
	Budgeted Amounts		Actual Amounts, (Budgetary Basis)	Variance with Final Budget Positive (Negative)
	Original	Final		
REVENUES				
Intergovernmental Revenue	\$ 339,410	\$ 339,410	\$ 112,537	\$ (226,873)
Total Revenues	339,410	339,410	112,537	(226,873)
EXPENDITURES				
General Government	99,410	99,410		99,410
Protection to Persons and Property	30,000	30,000		30,000
Recreation and Culture	200,000	200,000		
Administration	15,000	15,000		15,000
Total Expenditures	344,410	344,410		144,410
Excess (Deficiency) of Revenues Over Expenditures Before Other Financing Sources (Uses)	(5,000)	(5,000)	112,537	(82,463)
OTHER FINANCING SOURCES (USES)				
Transfers To Other Funds			(112,537)	112,537
Total Other Financing Sources (Uses)			(112,537)	112,537
Net Changes in Fund Balance	(5,000)	(5,000)		5,000
Fund Balance - Beginning	5,000	5,000	22,193	17,193
Fund Balance - Ending	\$ 0	\$ 0	\$ 22,193	\$ 22,193

HARRISON COUNTY
BUDGETARY COMPARISON SCHEDULES
Required Supplementary Information - Modified Cash Basis
For The Year Ended June 30, 2011
(Continued)

E-911 FUND				
	Budgeted Amounts		Actual Amounts, (Budgetary Basis)	Variance with Final Budget Positive (Negative)
	Original	Final		
REVENUES				
Taxes	\$ 300,000	\$ 300,000	\$ 256,151	\$ (43,849)
Intergovernmental Revenue	100,000	100,000	118,445	18,445
Miscellaneous	45,592	45,592	44,905	(687)
Interest	1,500	1,500	180	(1,320)
Total Revenues	<u>447,092</u>	<u>447,092</u>	<u>419,681</u>	<u>(27,411)</u>
EXPENDITURES				
Protection to Persons and Property	622,684	627,684	566,167	61,517
Administration	5,000			
Total Expenditures	<u>\$ 627,684</u>	<u>\$ 627,684</u>	<u>\$ 566,167</u>	<u>\$ 61,517</u>
Excess (Deficiency) of Revenues Over Expenditures Before Other Financing Sources (Uses)	<u>(180,592)</u>	<u>(180,592)</u>	<u>(146,486)</u>	<u>34,106</u>
OTHER FINANCING SOURCES (USES)				
Transfers From Other Funds	44,592	44,592	44,592	
Total Other Financing Sources (Uses)	<u>\$ 44,592</u>	<u>\$ 44,592</u>	<u>\$ 44,592</u>	<u>\$ 0</u>
Net Changes in Fund Balances	(136,000)	(136,000)	(101,894)	34,106
Fund Balances - Beginning	<u>136,000</u>	<u>136,000</u>	<u>127,765</u>	<u>(8,235)</u>
Fund Balances - Ending	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 25,871</u>	<u>\$ 25,871</u>

HARRISON COUNTY
BUDGETARY COMPARISON SCHEDULES
Required Supplementary Information - Modified Cash Basis
For The Year Ended June 30, 2011
(Continued)

SHROPSHIRE FUND				
	Budgeted Amounts		Actual Amounts, (Budgetary Basis)	Variance with Final Budget Positive (Negative)
	Original	Final		
REVENUES				
Licenses and Permits	\$ 2,050	\$ 2,050	\$ 3,478	\$ 1,428
Intergovernmental Revenue	1,000	1,000		(1,000)
Charges for Services	15,000	15,000	24,820	9,820
Miscellaneous	1,000	1,000	3,724	2,724
Interest	6,350	6,350	2,860	(3,490)
Total Revenues	25,400	25,400	34,882	9,482
EXPENDITURES				
General Health and Sanitation	38,700	38,700	38,646	54
Total Expenditures	38,700	38,700	38,646	54
Excess (Deficiency) of Revenues Over Expenditures Before Other Financing Sources (Uses)	(13,300)	(13,300)	(3,764)	9,536
OTHER FINANCING SOURCES (USES)				
Transfers From Other Funds	12,300	12,300	3,820	(8,480)
Total Other Financing Sources (Uses)	12,300	12,300	3,820	(8,480)
Net Changes in Fund Balances	(1,000)	(1,000)	56	1,056
Fund Balances - Beginning	1,000	1,000	232,297	231,297
Fund Balances - Ending	\$ 0	\$ 0	\$ 232,353	\$ 232,353

HARRISON COUNTY
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION

June 30, 2011

Note 1. Budgetary Information

Annual budgets are adopted on a cash basis of accounting and according to the laws of Kentucky as required by the State Local Finance Officer.

The County Judge/Executive is required to submit estimated receipts and proposed expenditures to the fiscal court by May 1 of each year. The budget is prepared by fund, function, and activity and is required to be adopted by the fiscal court by July 1.

The fiscal court may change the original budget by transferring appropriations at the activity level; however, the fiscal court may not increase the total budget without approval by the State Local Finance Officer. Expenditures may not exceed budgeted appropriations at the activity level.

Note 2. Reconciliation of Required Supplementary Information to the Statement of Revenues, Expenditures, and Changes in Fund Balances

The following is a summary of the adjustments made between the budgetary comparison schedules and the Statement of Revenues, Expenditures, and Changes in Fund Balances:

General Fund:

Budgetary Basis - Beginning Fund Balance	\$ 1,239,934
Plus: Jail Fund Beginning Fund Balance	<u>18,083</u>
Modified Cash Basis - Beginning Fund Balance	<u><u>\$ 1,258,017</u></u>
 Budgetary Basis - Revenues	 \$ 4,568,102
Plus: Jail Fund Revenues	93,358
Plus: Accounts Receivable - Leases	<u>18,106</u>
Modified Cash Basis - Revenues	<u><u>\$ 4,679,566</u></u>
 Budgetary Basis - Expenditures	 \$ 2,937,992
Plus: Jail Fund Expenditures	551,919
Plus: Lease Payments On Behalf of County	<u>18,106</u>
Modified Cash Basis - Expenditures	<u><u>\$ 3,508,017</u></u>
 Budgetary Basis - Ending Fund Balance	 \$ 1,169,532
Plus: Jail Fund Ending Fund Balance	<u>31,622</u>
Modified Cash Basis - Ending Fund Balance	<u><u>\$ 1,201,154</u></u>

**REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND
ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS
PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS**



ADAM H. EDELEN
AUDITOR OF PUBLIC ACCOUNTS

The Honorable Alex Barnett, Harrison County Judge/Executive
Members of the Harrison County Fiscal Court

Report On Internal Control Over Financial Reporting And
On Compliance And Other Matters Based On An Audit Of Financial Statements
Performed In Accordance With Government Auditing Standards

We have audited the financial statements of the governmental activities and each major fund of Harrison County, Kentucky, as of and for the year ended June 30, 2011, which collectively comprise the County's basic financial statements, as listed in the table of contents and have issued our report thereon dated April 16, 2012. Harrison County presents its financial statements on the modified cash basis of accounting, which is a comprehensive basis of accounting other than generally accepted accounting principles. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

Management of the Harrison County Fiscal Court is responsible for establishing and maintaining effective internal controls over financial reporting. In planning and performing our audit, we considered Harrison County Fiscal Court's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Harrison County Fiscal Court's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of Harrison County Fiscal Court's internal control over financial reporting.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.



Report On Internal Control Over Financial Reporting
And On Compliance And Other Matters Based On An Audit Of Financial
Statements Performed In Accordance With Government Auditing Standards
(Continued)

Compliance And Other Matters

As part of obtaining reasonable assurance about whether Harrison County's financial statements as of and for the year ended June 30, 2011, are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under Government Auditing Standards.

This report is intended solely for the information and use of management, others within the entity, and the Department for Local Government, and is not intended to be and should not be used by anyone other than these specified parties.

Respectfully submitted,

A handwritten signature in black ink, appearing to read 'Adam H. Edelen', with a stylized flourish at the end.

Adam H. Edelen
Auditor of Public Accounts

April 16, 2012

